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SUBJECT: THE BOBCAT AND THE CAGED LION - THOUGHTS ON THE UAE AND IRAN

REF: 97ABU DHABI3777

Classified by Ambassador Richard Olson, reasons 1.4 (b) and (d).

11. (U) This is a joint cable from Dubai, Abu Dhabi, and the Iran Regional Presence Office.

Summary  
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12. (C) Iran has previously been compared to a caged lion (reftel). Its immediate neighbor to the South is more like a bobcat: a potent fighter for its size, sharp of tooth and ready to defend its den, but fundamentally unprepared to provoke the bigger cat, wary in the knowledge that someday the lion may get out of its cage. The bobcat is less timid when it is certain that it has even larger cats on its side, but it still doesn't taunt the caged lion.

13. (C) Getting past animal analogies, the United Arab Emirates is bound by geography and history to a close relationship with Iran. Strategically, the leadership of the UAE sees the Iranian threat in much the same terms as we do (albeit its concerns about regional hegemonic ambitions are perhaps even stronger than about nuclear proliferation), but will always be cautious about taking confrontational action (especially public action) that goes beyond the letter of Security Council Resolutions. As the USG reviews our policy toward Iran, it will be critical that we keep the UAE (and other Gulf partners) apprised of our thinking. Any perception that the U.S. is "softening" on Iran, may (out of strategic necessity) be met with a much magnified UAE "softening." And since the UAE plays a vital role in maintaining effective sanctions, we should work to keep them on side. End Summary.

Introduction  
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14. (S/NF) Iran looms large in many of the key issues at play in the U.S.-UAE relationship. Our counter-proliferation and counterterrorism finance efforts primarily focus on containing the threat Iran poses, including by preventing its acquisition of nuclear weapons. Our recent arms sales to the UAE focus largely on missile-based threats and we share concerns about Iran's influence in Iraq and the region, including vis-a-vis Hamas and Hizballah. We each reject Iran's threats to close the Straits of Hormuz if confronted and decry its refusal to engage the UAE over territorial disputes in the Gulf. Despite this synergy of interest, our approaches differ considerably, especially given the UAE's \$14 billion trading relationship with Iran. Our diplomatic efforts to develop a joint Iran policy must acknowledge the UAE's bottom line: it will not openly confront its large and ambitious neighbor and risk destabilizing its own strategic interests -- both economic and political. The UAEG, and in particular Dubai, with its longstanding cultural and economic ties with Iran, will continue to walk a fine

line between engagement and criticism of Iran's threatening behavior.

#### Mutual Attractions

¶5. (C) President Sheikh Khalifa bin Zayed Al Nahyan told former President Bush (Bush 41) in 2006 that UAE engagement with Tehran is "a fact of geography." Iran towers over the UAE in both size and population and, as Foreign Minister Abdullah bin Zayed told us recently, this leaves the UAE with "no other choice" than to engage at some level. Ties between the countries are significant, as the UAE is home to perhaps 200,000 Iranians (estimates range from 150,000 to as high as 400,000 resident Iranians) who are active in trading, commerce, and real estate. Immigration and marriages through generations have linked these coastal neighbors. Diplomatic relations are cordial, but not necessarily warm, and include periodic senior official visits. Iranian President Ahmedinejad visited the UAE in May 2007 and both Dubai and Abu Dhabi leaders have been to Tehran in 2008.

¶6. (C) Although UAE-Iran trade may be slowed down after years of rapid expansion, Dubai remains the hub through which Iran accesses the global economy (UAE investment in Iran is minimal). Official UAE-Iran non-oil trade (including re-exports) increased from USD 2.04 billion in 2001 to USD 7.35 billion in 2007. According to Dubai Chamber of Commerce estimates based on certificates of origin, Dubai Chamber of Commerce members' exports to Iran declined by 15.4 percent in third quarter 2008 compared to third quarter 2007 (Dubai Chamber members' exports overall increased by 25 percent during that period). Trade by traditional dhow continues, although higher-end commerce now takes the form of containerized shipping. UAE telecom major etisalat recently won a USD 1.5 billion award for a mobile network in Iran.

#### Mutual Distractions

¶7. (S/NF) Three issues tend to resonate through UAEG diplomatic views of Iran: 1) disputed islands in the Gulf, 2) Iran's nuclear program, and 3) concerns of Iran seeking regional hegemony (often described as reviving the "Persian Empire," a reference to the 1501-1722 AD Safavid era during which Iran was converted to Shi'a Islam). The nexus between the second two concerns is particularly troubling for UAE leaders -- a nuclear neighbor with hegemonic ambitions. Also of concern to the UAEG is how the U.S. and its European allies deal with Iran; they fear both Western engagement with Tehran that might play into Iran's hegemonic goals without reference to Gulf equities, and Western military action against Iran's nuclear program that might invite Tehran's retaliation against the proximate targets of the Gulf. Indeed, the UAEG feels it must walk a fine line on Iran policy.

¶8. (C/NF) Disputing claims to three islands in the Arabian Gulf date back to pre-federation days in 1971 (and the Arabian/Persian Gulf's name itself is a matter of some dispute). Abu Musa and the Greater and Lesser Tunb, have remained under the de facto control of Iran -- including military installations -- since the British relinquished control of the Trucial States. That status quo arrangement (which Iran arguably imposed upon the small emirate of Sharjah before the UAE federation was formed) has held firm despite rhetorical and diplomatic flourishes by the UAEG over the years (see also para 12 for Iran's views on the dispute). The August 2008 announcement of new offices on the island of Abu Musa -- a marine rescue center and a ship registry office -- brought the debate back to the fore. UAE links to the islands are maintained by a limited resident population (estimates vary widely between a mere handful and a few thousand) and frequent reminders in the diplomatic arena (the UN, GCC, and Arab League paramount among them) that the UAE seeks arbitration by the International Court of Justice (ICJ). President Khalifa reiterated in a National Day message in December 2008 that the UAE is willing to accept any ICJ decision but will not forget the dispute until it is properly arbitrated (albeit through cooperation and not confrontation). Iran shows no inclination of agreeing to ICJ arbitration. The location of the islands near the Straits of Hormuz adds to their strategic value. The U.S. has endorsed the concept of peaceful arbitration but generally stayed out of the competing territorial claims; the UAE has not asked us to endorse its claim,

but might appreciate consultations on the matter if we were ready to rethink our position.

¶9. (S/NF) The UAEG often voices its concern regarding Iranian influence in Iraq, and has a clear disdain for Tehran's support for extremist causes like Hamas and Hizballah. Despite cordial diplomatic ties, Iran's "superpower" and, especially nuclear, ambitions are the focus of the UAE's defense policy. (Note: Iran is only 46 seconds from the UAE as measured by the flight time of a ballistic missile. End note.) The UAE's senior defense strategist, Abu Dhabi Crown Prince and Deputy Supreme Commander of the UAE Armed Forces Mohammed bin Zayed (MbZ), who refers to Iran as an "existential threat," argued to an American visitor on December 14 that without the U.S. Navy's presence in the Gulf, we would be dealing with "one oil producer" (as Iran would swallow up everything it could to consolidate its power). While the UAE leadership seems convinced of Iran's determination to obtain nuclear weapons, it prefers not to express this concern too publicly and seeks close coordination with P5+1 negotiators. (The UAE is pursuing its own peaceful nuclear program with clear proliferation-resistant protocols designed to distinguish it from Iran's approach.) Militarily, the UAE is concerned about getting caught in the crossfire if Iran is provoked by the U.S. or Israel. At the same time, the UAE views its fleet of Block 60 F-16 aircraft (the most advanced version developed) as a significant contribution to deterrence of Iran. Equipped with conformal fuel tanks, advanced electronic warfare countermeasures, and weaponry such as JDAMs, the F-16s are clearly designed to be able to inflict damage well beyond the UAE's borders, as are their Mirage 2000-9 fighters and Black Shaheen cruise missile.

¶10. (S) MbZ recently scoffed at Iran's overly confident self-perception, as characterized by Ministry of Intelligence and Security Chief Qolan Hosein Mohseni-Ejei's comments that Iran's economic system was destined to replace capitalism. MbZ and others worry, though, about the implications if Iran actually believes its own propaganda. MbZ told State Acting U/S John Rood in November that lower oil prices should limit Iran's ability to destabilize the region but that Iran might "hide behind the crisis" and disguise its nefarious transactions while regulators focused elsewhere. These two voices from the Abu Dhabi leadership show disdain for the economic confidence of a (politically volatile) neighbor which is dependent on trade with Dubai. The UAE also views resident Iranians as an internal threat prone to manipulation by Tehran, and has taken unannounced steps to reduce Iran's footprint (i.e., reducing the numbers of UAE visas for Iranians). This move has clearly been noticed by Tehran and has provoked public scolding as un-neighborly. The October announcement that the UAEG would guarantee deposits with foreign banks with substantial operations in the UAE appears to exclude smaller Iranian banks, perhaps a message to Iran that business is less "usual" these days. A new ID card requirement for foreign residents also has the side effect of enhancing UAEG ability to monitor foreign populations; we deduce from MbZ's statements that the UAE keeps a close eye on the activities of the resident Iranian community.

How Iran views the UAE

¶11. (S/NF) Iran takes its relationship with the UAE seriously, particularly given the UAE's increasing role in U.S. security and counterproliferation policy. In 2007, Iran assigned a former Deputy Foreign Minister and Spokesman, Hamid Reza Asefi, as Ambassador to the UAE. Also in 2007, President Ahmadinejad visited both Abu Dhabi and Dubai (a first for an Iranian head of government since the revolution) and made a rare public address to the Iranian community in Dubai. Iranians in the UAE represent Iran's largest expatriate population outside the U.S., and the Iranian government keeps a close eye on them. This scrutiny has increased considerably since 2006 with the opening of the State Department's Iran Regional Presence Office (IRPO) in Dubai, which the IRIG continues to consider a Washington outpost for fomenting regime change in Iran. With regime survival always paramount, Iran devotes considerable intelligence resources in the UAE to ensure that Iranians (both resident and transient) cannot use the UAE as a base to organize a (potentially well-financed and globally integrated) opposition movement, and so that they think twice before engaging with IRPO or other Western official interests here.

¶12. (S/NF) On the bilateral front, Iran has focused on expanding commercial ties, while downplaying UAE claims on the three islands. According to Iran, the islands were ceded back to Iran by Britain in 1971, in exchange for Iran renouncing its claim on Bahrain. Iran has occasionally dropped hints, most recently in early 2008, that any GCC pressure on the islands might force Iran to revisit this Shah-era deal, and possibly revive its claim on Bahrain. Such implicit threats on single GCC members are a favorite Iranian method of blunting GCC security cohesion and cooperation with the U.S. In Iranian strategic thinking, the three islands dispute is a minor issue, unless the U.S. were to get involved more directly in support of the UAE claim -- perhaps in exchange for basing rights on the island once wrested from Iranian control.

¶13. (S/NF) Iranians view Dubai as a safety valve for capital, social freedom, artistic expression, and entrepreneurship. As noted above, Dubai has served as Iran's primary conduit to the global economy. This siphoning of Iranian capital and talent is not unique to Dubai, nor to current regional conditions. But perhaps no other country has benefited more from Iran's continued poor governance and international isolation than the UAE. Given Dubai's virtually unique role, however, should the UAE act to close this safety valve, immediate pressure would build inside Iran with unpredictable consequences for U.S. and UAE interests. The status quo of cautious accommodation persists for good reasons.

#### Implications for U.S. goals

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¶14. (S/NF) As USG policy on Iran evolves, we should consult closely with the UAEG, which worries U.S. plans vis-a-vis Iran could provoke its unpredictable neighbor, or bolster its confidence. Coastal and sea-based infrastructure -- including key oil, power, and water desalination facilities -- are particularly vulnerable to seizure or attack. We should especially finesse those rare moments when we engage both the Abu Dhabi and Dubai leadership together -- usually limited to POTUS and VPOTUS level visits -- to press for a more united Abu Dhabi/Dubai approach and to ensure that the UAEG understands U.S. intentions. Abu Dhabi has pressed for closer consultations with the P5+1, nervous that the EU's Javier Solana negotiates with incentives (potentially to include security guarantees) that the GCC has not been privy to.

¶15. (S/NF) Despite its non-confrontational stance, the UAEG has an export control law which facilitates its adherence to UN Security Council Resolutions on Iran (1737, 1747, and 1803). Still, it could be more proactive in seeking out shipments of restricted cargo and more aggressive in recognizing that dual use goods are often as dangerous as items that are banned outright. AbZ and other senior UAE officials have frequently asked that we use the UAE as a "last resort" and focus on stopping shipments elsewhere before they reach the UAE -- unrealistic in our view given the enormous volume of goods shipped and traded through the UAE. With Dubai being Iran's largest non-oil trading partner and often the last foreign stop for vessels bound for Iran, a strong UAE commitment to countering proliferation is essential. We must continue to play to the UAE's desire to be a global player in nonproliferation and counter terrorism finance, and in particular urge a more proactive approach to ensuring activities of Iranian banks in the UAE, and UAE banks in Iran, are not used by the Iranian government to support illicit trade.

¶16. (S/NF) We agree with our UAE interlocutors that our dialogue on Iran should go far beyond WMD and terrorism. A broader strategic dialogue that includes acknowledgment of the UAE's legitimate trade interests and highlights Iran's destabilizing activity in the region could help convince the UAE of the need to take a greater leadership role in the international community's efforts to contain Iran. As part of this effort, helping the UAE satisfy its need for a credible defense architecture, particularly against Iranian missiles, is one way to continue to influence UAE decision-making. Depoliticizing the sale of defensive weapons systems (PAC III, THAAD) and expediting delivery also reaffirms our overall credibility as a defense partner.

¶17. (S) Bottom line for UAEG: As a small, young, vulnerable, rich country, the UAE has long since decided that it cannot afford to be confrontational with its much larger and militarily ambitious neighbor. It sees prosperity and survival as hinging upon maintenance of cordial regional relations, as much as it does on

reinforced military ties with the U.S. and other partners (many have varying degrees of military presence here). We should bolster its confidence in its own ability to stand up to Iran by frequent consultations, continued defense cooperation, broader engagement, and reminders that counter proliferation and counter terrorism finance are not favors to the U.S., but critical elements of countering the "existential" threat Iran poses. As an added advantage, maintaining our close partnership with the UAE best enables us to take advantage of its proximity to Iran and its resident Iranian population to deepen our understanding of and engagement with the Iranian people.

OLSON